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SUBJECT: WMO FINANCIAL ADVISORY COMMITTEE REPORT

11. SUMMARY: The 28th Session of the World Meteorological Organization's (WMO) Financial Advisory Committee (FINAC) met prior to the June WMO Executive Council (EC) Meeting. FINAC-28 tracked closely with the EC agenda. Significant discussion centered on the need for a budget increase if the WMO is to continue to credibly contribute to climate science and to enhance capabilities of National Meteorological and Hydrological Services (NMHS). The Secretary General (SG) stated that 13 years of zero nominal growth (ZNG) were affecting the organization's ability to implement programs. In general, the global economic crisis loomed over issues such as an unlikely increase in the budget, any impact on the Working Capital Fund, and payroll reserves. END SUMMARY.

12. Dr. Jack Hayes, the U.S. Permanent Representative to the WMO, led the U.S. FINAC-28 delegation. Although FINAC is held on the margins of the EC, it is a body of the WMO Congress and as such in accordance with the WMO convention Dr. Hayes serves as a representative of the U.S. government. This is in contrast to the EC where Dr. Hayes serves in his individual capacity in accordance with the relevant organizational rules. Major agenda items included:

- the report from the Audit Committee,
- implementation of the International Public Sector Accounting Standards (IPSAS),
- a proposal to increase the load on payroll reserves for recruitment, termination costs, and after-service health insurance benefits,
- a proposal to finance the increase in the capital of the WCF,
- the interim financial situation and status of Members' contributions,
- a review of budget proposals for 2010-2011, including high priority activities funded with surplus from 14th financial period, and
- the preliminary discussion on the budget for the 16th financial period (2011-15).

13. Overall, the WMO has made significant strides towards promoting transparency and good governance practices within the organization. The U.S. has worked with the WMO to ensure that various policies have been instituted and structures put in place that can monitor and evaluate the running of the WMO. For example, the EC in recent past has approved policies concerning financial disclosure reports for certain staff, as well as deciding to open the EC and its relevant working group meetings to all WMO Members States. Additionally, the WMO Secretariat has worked well with the WMO Audit Committee (established previously as a result of U.S. efforts) to ensure proper oversight of the organization. This has been a successful model and resulted in the WMO, at least on paper, being in the forefront of other UN organizations on matters such as the establishment of an ethics officer and the drafting of annual accountability reports, among other things. The WMO has also taken significant measures to safeguard against fraud by reorganizing and combining the internal oversight function into a strengthened

Internal Oversight Office or IOO. These are all very positive steps toward instituting a culture of financial and managerial practices that are sound, as well as efficient and effective.

#### Agenda Highlights

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¶4. Audit Committee. Following the trend seen in the bi-annual Audit Committee meetings, the WMO continues to make timely advances on recommendations based on the results of the reports from both the internal and external auditors. The external audit of WMO financial statements "revealed no material errors to the validity of financial statements." The external auditor further stated that "there is no problem with the figures and that the Secretariat may rely on the accounts presented today." He commended the WMO for reducing the time taken to deliver the financial statements and stated that quicker reporting reflects successful application of a more stringent reporting process and provides for closer monitoring of balances. He further stated that efficient reporting will also help WMO as they proceed forward with the implementation of IPSAS. The auditor noted that the WMO does not have a process in place to track expenditures by expected result. During the EC, the U.S. proposal was adopted, which requires that future recommendations of the Joint Inspection Unit, Internal Oversight Office, and External Auditor accepted by the Secretary General be assigned to a responsible party within WMO Secretariat and an official timetable set for completion of each recommendation. The proposal also calls the Secretary General to continue to provide members of the Audit Committee with a list of all recommendations made during the current and previous years, along with the status of implementation for each recommendation, and if rejected, justification for such action.

¶5. International Public Sector Accounting Standards (IPSAS). IPSAS is on target for implementation on January 1, 2010. WMO is expected to be one of the first UN agencies to achieve this milestone as originally scheduled. Under IPSAS, true assets and liabilities will be more transparent and facilitate greater comparability over time between agencies in the UN system. The Secretary General's recommendations to facilitate IPSAS were approved and the U.S. joined consensus.

¶6. Payroll. Once the WMO moves to IPSAS, health insurance liability will be included as a liability on the balance sheet; currently it is considered an extra-budgetary liability. There is currently an estimated 79 million Swiss Francs (CHF) in liability; however it is important to note, that this liability is paid out over time on an as-needed basis and will not be due in full when IPSAS is adopted in ¶2010. In response to this shortfall the EC approved the Secretary-General's proposals to increase the charges on payroll costs for the funding of the reserve for after-service health insurance benefits from 2 to 3 percent. Separately, the EC approved the Secretary-General's proposals to increase the charges on payroll costs for the funding of the reserve for recruitment and termination benefits from 3 to 4 percent. The USDEL supported this position.

¶7. Financing the increase in the Working Capital Fund (WCF). Discussion on the WCF began early in the session when the Secretary General noted that the global financial crises necessitated shifting funds into less volatile accounts, though no funds have been lost through poor investments the resulting interest rates are lower. Despite the global economic trends the USDEL was successful in garnering support for option B, which states that the shortfall of CHF 1.2 million in the capital of the WCF will be funded from interest income of the WCF over the 3 year financial period that began in 2008. There was strong support for Option B also by Japan, Germany, and the UK. The point was also made that the WCF has not been used in recent years.

¶8. Member contributions. The Secretary General reported that member payments "are on track" and they "expect no problems." The EC adopted a recommendation urging Members in whose contributions are in arrears to settle their dues as early as possible so that the approved programmes of WMO may be implemented according to the established time frame and at the expected planned level.

¶9. Review of budget proposals for 2010-2011. The EC recommended that the Council further review programmatic priorities before adopting the Draft Resolution.

¶10. Preliminary discussion on the budget for the 16th financial period (2011-2015). The Secretary General began discussions by proposing a budget increase in real terms by 2% annually over the previous budget. This would translate as an annual increase of approximately 20 million CHF, from 245 million CHF to 265 million CHF annually. The Secretary General stated that the "WMO must overcome deterioration of resources, since they have been held at zero nominal growth since 1996." He further stated that, "to continue on this path would have drastic impact on programs of members and render them incapable of following through on their promised deliverables." The U.S. was unequivocal in stating that all budgetary options should remain open for consideration by Congress in 2012. The USDEL was successful in including the following language, coordinated with DOS, in the EC report: "The Council decides to develop three options for budget proposals for consideration by Congress for the sixteenth financial period (2012-2015). One should reflect ZNG, another ZRG, and a third to include a 2% annual increase over the previous budget. Furthermore, each budget proposal should include an analysis of the impacts on the achievement of expected results."

¶11. There was a significant audit issue discovered in the report from the External Auditor, the National Audit Office (NAO) of the United Kingdom. The statement containing the report of expenditure against appropriations (Statement IV), required by the financial regulations, had to be recast in 2008 since the basis for appropriations for the current financial period was changed from "programs" to "Expected Results." For 2008, the statement by ER was based on management estimates rather than a process with adequate audit trail. This resulted in a qualified opinion from the External Auditor (see EC-LXI/INF. 5, Appendix E, p.25, caption: budget monitoring) with recommendations 11 and 12 urging corrective action.

The Secretariat issued an action plan for these particular recommendations in EC-LXI/INF. 5 Appendix G, p. 3. If the matter is not appropriately addressed it may lead to further qualified opinions of the financial statements. It is critical that the Council follow-up with the Secretariat confirming that the issues raised by the NAO are addressed (see recommendation 11, in particular) and the action plan offered by the Secretariat will adequately address the concerns raised by the NAO.

¶12. One area of governance that State Department and NOAA will work together is in improving the rules and regulations governing the WMO's financial disclosure policies. Currently there is a provision that an alternate mechanism will apply to staff at the Assistant Secretary General (ASG) level. NOAA and DOS plan to work with WMO to revisit this policy to ensure that senior members of the WMO management team receive the same scrutiny as all staff required to complete the disclosure forms. Moreover, DOS and NOAA plan to inquire as to the number of staff who are required to divest holdings or have their duties curtailed due to an identified conflict of interest based on their financial disclosure form.

GRIFFITHS